

Message Text

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ACTION EB-08

INFO OCT-01 AF-10 ISO-00 SSO-00 NSCE-00 USIE-00 SP-02
AID-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 L-03
H-01 CIAE-00 COME-00 FRB-03 INR-10 NSAE-00 XMB-02
OPIC-03 LAB-04 SIL-01 EUR-12 EA-10 INRE-00 /099 W
-----059379 311452Z /46

O 311348Z MAR 78
FM AMEMBASSY LUSAKA
TO SECSTATE WASHDC IMMEDIATE 8042

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E.O. 11652: GDS
TAGS: EFIN IMF ZA US
SUBJ: ZAMBIA REQUESTS SUPPORT FOR IMF LOAN

REF: LUSAKA 886

1. AMBASSADOR AND ECON OFFICER MET WITH GRZ MINISTER OF FINANCE JOHN MWANAKATWE ON MARCH 30 AT LATTERS REQUEST TO DISCUSS RECENT GRZ/IMF NEGOTIATIONS AND DEBT PROBLEMS WITH EXIM GUARANTEES (SEPTTEL). MWANAKATWE, WHO SAID HE WAS ACTING UNDER THE PERSONAL INSTRUCTIONS OF PRESIDENT KAUNDA, INDICATED THAT HE WAS ALSO SEEING THE BRITISH, GERMAN AND POSSIBLY JAPANESE CHIEFS OF MISSION ON THE IMF SUBJECT BUT ONLY THE BRITISH ON THE DEBT PROBLEM.

2. MWANAKATWE'S PURPOSE WAS TO SOLICIT US SUPPORT IN THE IMF FOR APPROVAL OF THE STANDBY AGREEMENT RECENTLY NEGOTIATED BETWEEN THE GRZ AND IMF (REFTEL). HE STRESSED THE IMPORTANCE OF THE IMF AGREEMENT IF ZAMBIA WAS TO SURVIVE THE CURRENT ECONOMIC CRISES. THE MINISTER POINTED OUT THAT WHILE THE CONDITIONS SET OUT IN THE AGREEMENT ARE STRINGENT, ZAMBIA WAS DETERMINED TO COMPLY. IT FULLY EXPECTED TO FULFILL THE REQUIREMENTS FOR THE STANDBY ARRANGEMENT. (HE MENTIONED THAT ZAMBIA FAILED TO MEET THE CONDITIONS OF THE 1976 IMF STANDBY AGREEMENT SOLELY
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BY EXCEEDING LIMITS ESTABLISHED ON GOVERNMENT BORROWING FROM BANKS.) HE ASKED THAT WE DO WHAT WE COULD TO SUPPORT ZAMBIA'S APPLICATION IN THE IMF GIVEN OUR INFLUENTIAL POSITION.

3. THE AMBASSADOR ASSURED MR. MWANAKATWE THAT THE EMBASSY APPRECIATED THE SERIOUSNESS OF ZAMBIA'S CURRENT SITUATION. HE DID NOT KNOW WHAT THE U.S. EXECUTIVE DIRECTOR TO THE IMF'S

VIEWS WERE BUT SAID THAT THE EMBASSY WOULD RECOMMEND TO HIM THAT THE U.S. SUPPORT THE GRZ APPLICATION. HE PROMISED TO INFORM THE GRZ OF OUR POSITION ON THE MATTER.

4. THE EMBASSY SUPPORTS ZAMBIA'S APPLICATION TO THE IMF AND ASSUMES THE DEPARTMENT SHARES OUR VIEW. THE IMF STANDBY IS OF CRITICAL IMPORTANCE TO ZAMBIA'S ECONOMY AND REVIVAL OF THE ECONOMY COULD WELL BE CRUCIAL TO THE SURVIVAL OF PRESIDENT KAUNDA'S GOVERNMENT. DESPITE INTERNAL POLITICAL DIFFICULTIES WHICH MAY BE CAUSED BY ADHERENCE TO THE IMF CONDITIONS, WE HAVE NO REASON TO DOUBT ZAMBIA'S SINCERITY IN PLEDGING COMPLIANCE. SOME OF THE MORE DIFFICULT STEPS, DEVALUATION AND REDUCING EMPLOYMENT IN THE MINING SECTOR, HAVE ALREADY BEEN TAKEN OR ANNOUNCED. COMPLIANCE WITH OTHER CONDITIONS WILL BE LESS "VISIBLE" AND EASIER TO IMPLEMENT.

5. EMBASSY THEREFORE, RECOMMENDS USG SUPPORT FOR IMF APPROVAL OF THE ZAMBIAN APPLICATION. WE WOULD APPRECIATE EARLY PRIORITY NOTIFICATION OF THE POSITION WHICH WILL BE TAKEN BY THE U.S. EXECUTIVE DIRECTOR, PARTICULARLY IF THE U.S. HAS ANY RESERVATIONS REGARDING THE AGREEMENT.

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, LOANS, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 31 mar 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LUSAKA01102
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780140-0249
Format: TEL
From: LUSAKA
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t1978034/aaaaacvt.tel
Line Count: 84
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 6b77c1bf-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: ONLY
Reference: 78 LUSAKA 886
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 28 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3246004
Secure: OPEN
Status: NATIVE
Subject: ZAMBIA REQUESTS SUPPORT FOR IMF LOAN
TAGS: EFIN, ZA, US, IMF
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/6b77c1bf-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014